Fixed Income Update
Week 33

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Nykredit

Refinancing auctions are approaching!

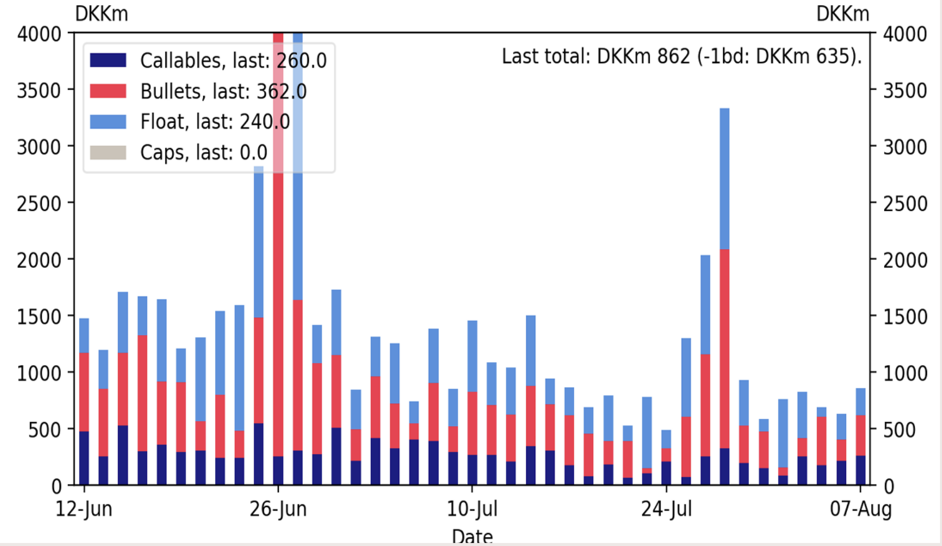
- We are still awaiting further information from the issuers regarding the refinancing auctions expected to take place next week.
  - Thus, our level of certainty remains unchanged from when we commented on maturities etc last week (see here).
  - However, we expect to receive information about the exact auction times, volumes etc. in the first half of this week.
- Nykredit is the only issuer offering FRNs in this auction round, and we already know the ISINs, maturities and other characteristics of these new FRNs (see right-hand chart).
  - These consist of three new (and essentially identical) SDO CIBOR 3M FRNs. These "triplets" are 3Y (Oct-29) non-callable FRNs and are each expected to be offered in auction volumes of around DKK 9-10 billion (if the refinancing percentage ends around 90% as usual).
  - The EUR FRN segment consists primarily of one SDO EURIBOR 3M FRN, which is also a 3M (Oct29) non-callable bond.
  - In addition, there will be one DKK RO and two EUR RO FRNs.
- We will provide an update once we receive more information from the issuers. In the meantime, don't forget our **Teams call on the auctions this Thursday at 9:30 am** (contact us for link).

ISIN	Name	Maturity	Rate cap/floor	Auction Day	Auction Price	Offer (mio)	Maturing (old ISIN)	Refi-rate
DKK FRN								
DK0009553885	NYK SDO CIBOR 3M	Okt 29	-	TBA	TBA	TBA	11,519	N/A
DK0009553968	NYK SDO CIBOR 3M	Okt 29	-	TBA	TBA	TBA	10,258	N/A
DK0009554180	NYK SDO CIBOR 3M	Okt 29	-	TBA	TBA	TBA	9,598	N/A
DK0009554263	NYK RO CIBOR 3M	Apr 29	-	TBA	TBA	TBA	5,381	N/A
EUR FRN								
DK0009554347	NYK SDO EURIBOR 3M	Okt 29	-	TBA	TBA	TBA	1,254	N/A
DK0009554503	NYK RO EURIBOR 3M CALL	Apr 30	-	TBA	TBA	TBA	135	N/A
DK0009554420	NYK RO EURIBOR 3M	Apr 29	-	TBA	TBA	TBA	89	N/A

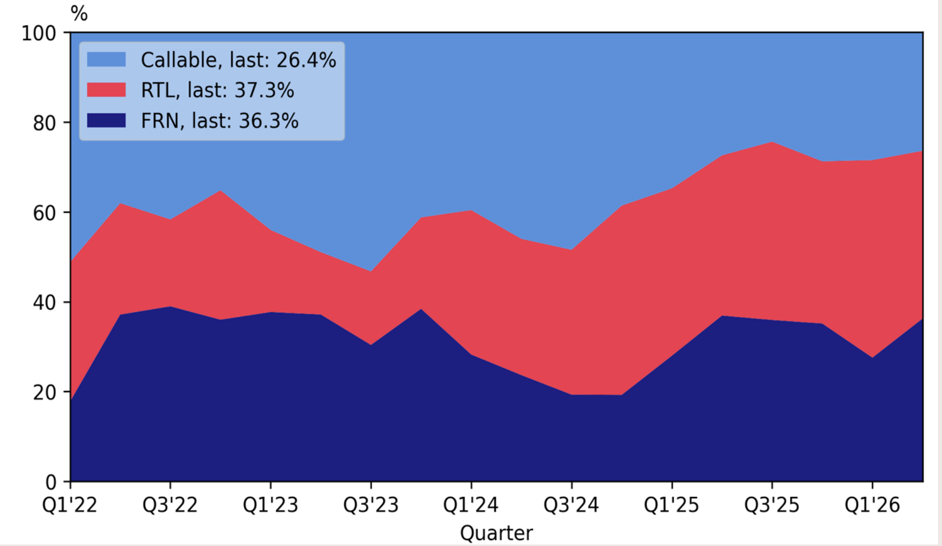
Issuance is still in summer holiday mode

- Issuance remained very low last week at less than DKK 1 billion per day.
- However, the composition remains unchanged: Mainly FRNs, somewhat fewer bullets and only limited issuance of callables.
- We attribute the low issuance volume to the summer holiday period and therefore expect issuance to pick up in the coming weeks, returning to approx pre-summer holiday levels (of around DKK 1.5-2 billion per day).
- The low issuance volume is also likely supporting the current (rich) pricing across all segments.

Daily issuance (OMX)



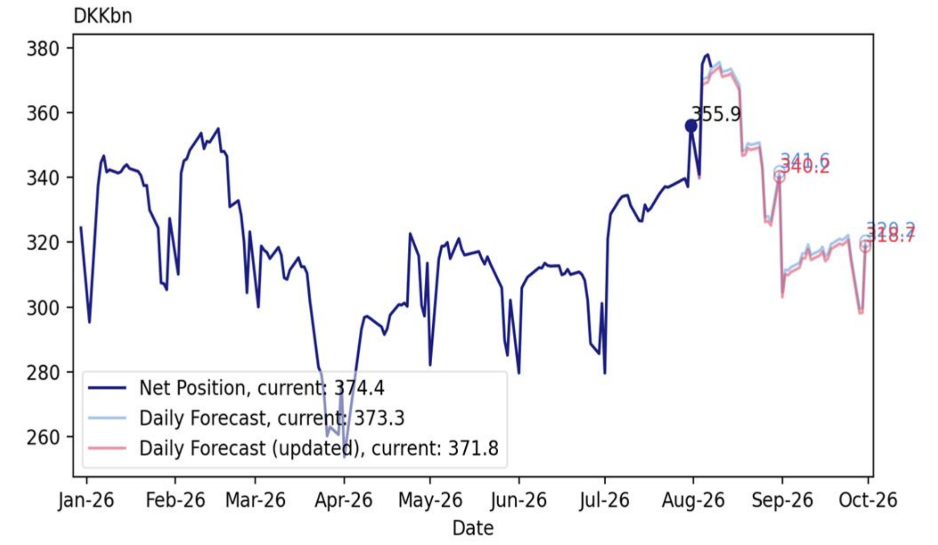
Composition of issuance (net of refi auctions and EoQ (Cirmil))



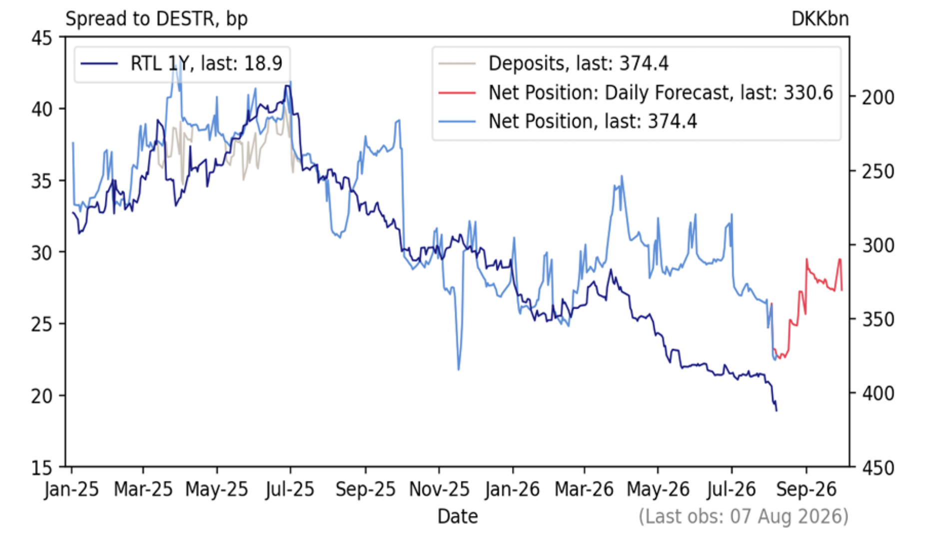
Net position reaches new hights ...

- The net position reached over DKK 370 billion last week and is expected to remain at that level throughout this week.
  - The recent increase in the net position has (as we have seen before) been reflected in the pricing of short-dated bullets, which have outperformed DESTR.
  - In addition to the liquidity development, the short-dated bullets are supported by a currently very low issuance of 1Y bullets.
- Next week, alongside the refinancing auctions, the net position is expected to decline to around DKK 350 billion.
  - Subsequently, the net position is set to decline further to around DKK 310-320 billion in September.
  - Although the net position is by no means low, the anticipated decline could create headwinds for shorter-dated bullets in particular at the current spread level.
  - To the extent that the decline in the net position is also reflected in the short-dated FX forwards, it could likewise create some headwinds for longer-dated bullets.
  - Bullets are nevertheless expected to remain supported by lower issuance – and next week's bullet auction volumes are not expected to exert any meaningful pressure on the market.

Net position exceeded DKK 370 billion this week



1Y bullets could face liquidity headwinds from next week!



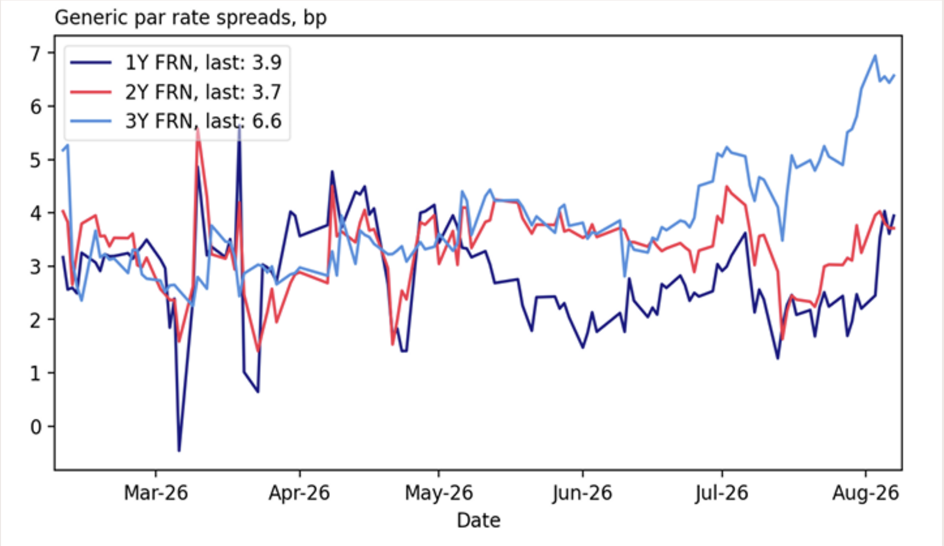
FRNs – ready for auction?

- 3Y FRNs have underperformed bullets during the summer rally and have become a couple of basis points cheaper vs bullets.
  - Currently, 3Y NYK FRNs trade around 6 basis points to the bullets curve.
  - We do not expect FRNs to cheapen relative to bullets in the run-up to (or at) the auctions.

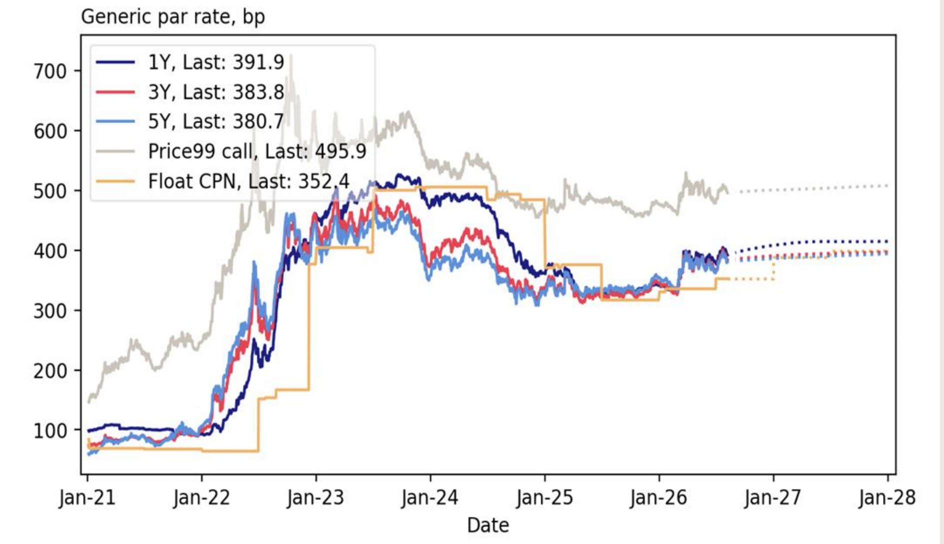
- FRN issuance has not been affected by the summer holiday slowdown to the same extent as the issuance of bullets and callables.
  - However, this does not have any material impact on the spreads.
  - FRNs are expected to keep their "cost advantage" (from the borrower's perspective) relative to bullets for the remainder of 2026, which may contribute to a slightly higher current issuance of FRNs relative to bullets.

- However, a relatively large bullet auction round is expected in November.
  - The volume of maturing bullets as of 1 January 2027 is currently DKK 161 billion, of which DKK 64 billion were originally issued as 5Y bullets.
  - Therefore, we do not expect overall issuance of longer-dated bullets in H2 2026 to be particularly low.

3Y FRNs have widened vs bullets



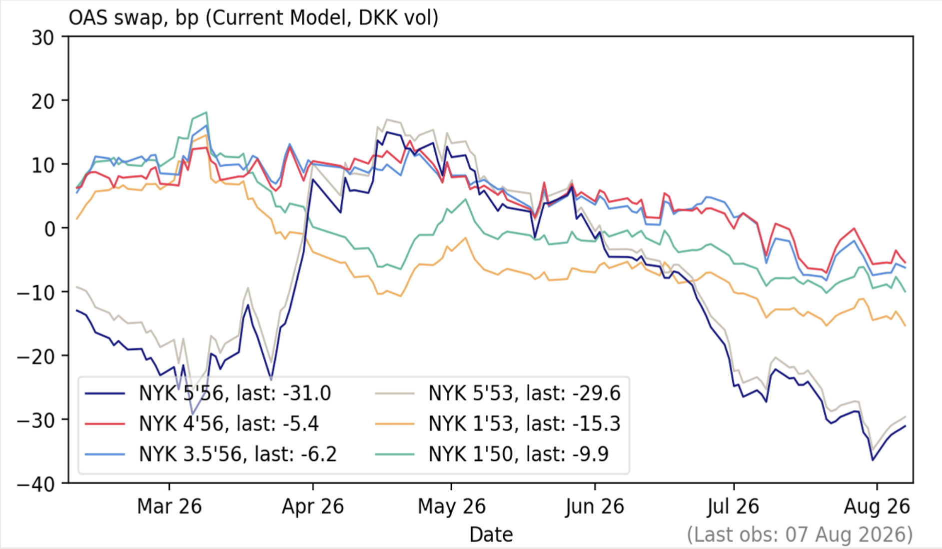
FRN-funded loans are cheaper than ARMs in H2 2026



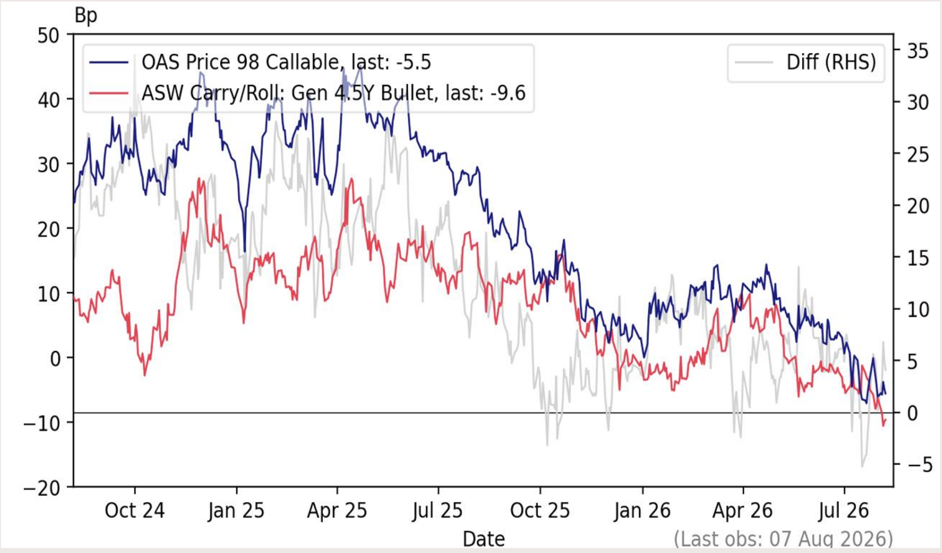
Slight preference for callables over 5Y bullets

- OTR callables and low-coupon bonds went roughly sideways last week.
- The pricing of OTR callables relative to 5Y bullets looks fairly balanced at the current level.
- One factor supporting OTR callables is the continued lack of any meaningful increase in issuance volumes, which should help keep spreads supported. At the same time, we see a greater risk of spread widening in bullets in the coming weeks (see also page 4).
  - This month marks the closure of the 4'56s (as well as the remaining the 2036, 2046 and 2056 series) for issuance, which may provide a bit of extra tailwind as cash flows become known, and the bonds also transition from issuance to buyback status.
- Last week, we argued that the recent performance in the 5%s had been overdone, and that breakeven prepayments against duration-equivalent bullets looked too low.
- Subsequently, the 5%s lost in terms of OAS, and breakeven prepayments have risen to 10-12% again (part of this is also due to the fact that we are now looking ahead to the January payment date, which automatically causes breakeven prepayments to increase due to the additional carry available to investors).
- We think that the 5%s now look fair at the current levels and do not expect major isolated spread widening from here.

30Y callables: OAS swaps



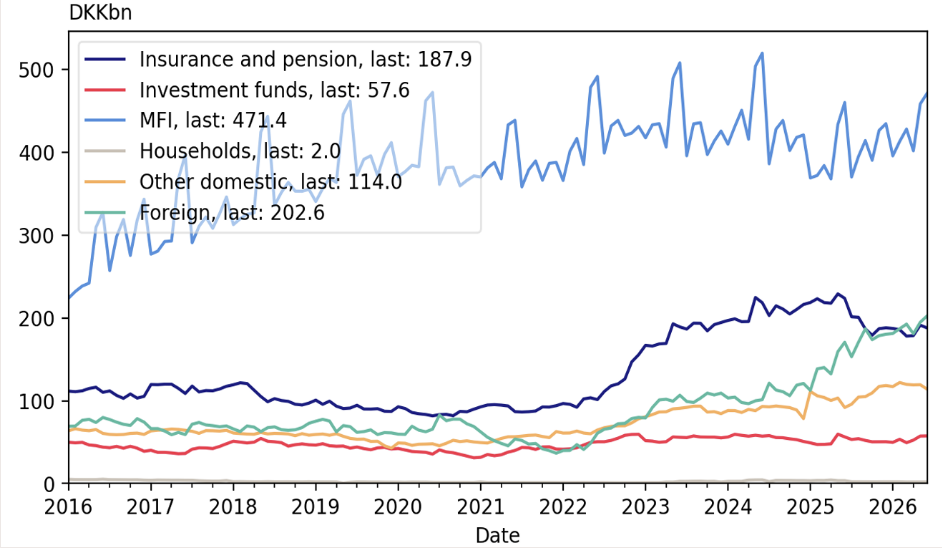
OAS Price 98 Callable vs Gen 5Y Bullet (Start 07 Aug 24)



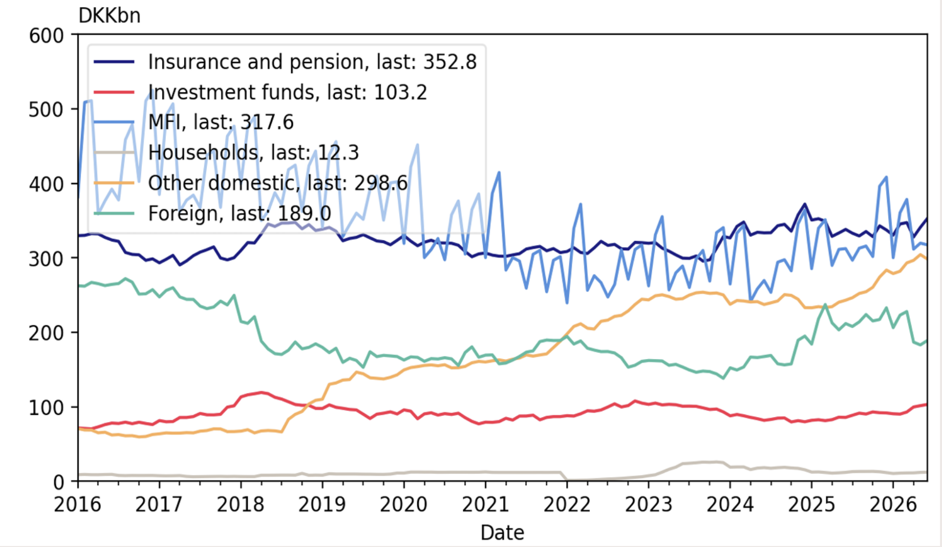
Hedge funds continue to buy FRNs

- Foreign investors continued increasing their FRN holdings in May and June.
- In total, they have increased their holdings by DKK 22 billion over May and June, primarily in longer maturities.
- Foreign investors purchased Jul'29 worth almost DKK 10.5 billion and Jul'30 worth 7 billion (net), while the rest is distributed over other maturities.
- Following June's purchases, foreign holdings of FRNs are now larger than those of the life and pension sector.
- Meanwhile, foreign holdings of bullets have remained roughly unchanged since declining by 41 billion back in April.
  - DKK 31 billion of the decline was driven by bonds maturing on 1 April, while the remaining DKK 10 billion was stemmed from active sell-off, primarily in Jan'27.
  - The bullet maturity and lack of reinvestment reduced foreign holdings by 1.7% to about 15% and it has remained at about the same level since then.

FRN and CF: Nominal holdings



Bullets: Nominal holdings



Recommendations

- Nearly all of our recommendations performed well last week and have recovered some of their recent losses.
- Our recommendation of 4.5 EU CVBs against 4.5 bullets was the only one to post a loss and has currently returned -0.28 since we opened the position on 1 June.
- We maintain all our recommendations this week.

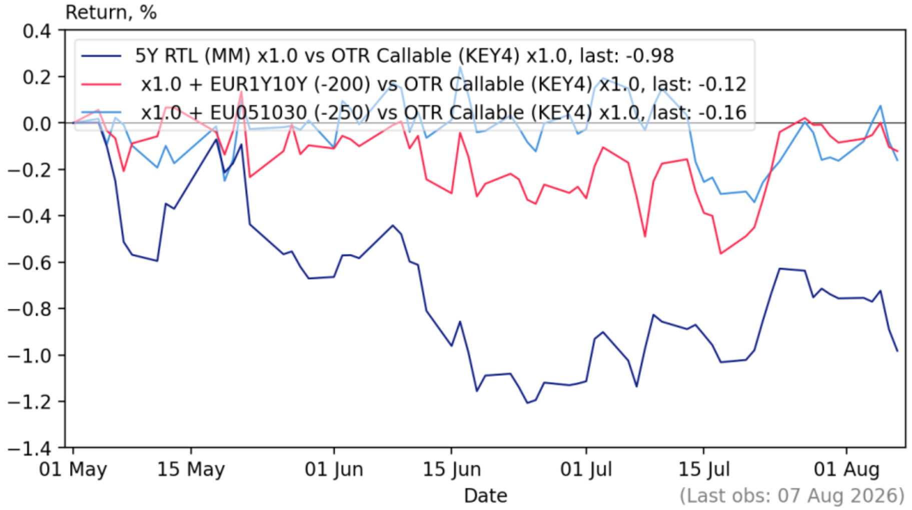
Current recommendations

Opening date	Name	Return 5bd	Total return
2026-06-01	RD 4'56IO vs NYK 4'56IO	0.00	0.01
2026-06-15	DGBi'34 vs DGBi'30 (BOX)	0.48	-0.47
2026-06-26	RTL5 vs RTL3	0.05	-0.00
2026-07-07	4'56 vs 1'50 & 5'53	0.27	-0.19
2026-08-03	3Y FRN vs. 3Y RTL	N/A	0.01

Outlook recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	-0.01	-0.01
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.00	0.13
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	0.38	-0.60
2026-01-26	4'56 vs RTL5	0.26	0.73

Return on recommendation: 5Y bullets vs OTR callables incl swap overlays



Nykredit markets

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Recommendation	
Buy	50%
Sell	50%

As at 13.12.2024
Note: Distribution of our recommendations, which therefore add up to 100%.

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